

BACK UP MATERIALS

QUALIFYING FOR THE AGIA UPSTREAM INDUCEMENTS

House Finance Committee

April 15, 2010

Alaska Department of Revenue

Qualification for AGIA Inducements

AGIA REGULATIONS OVERVIEW

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To qualify for any AGIA inducements under AS43.90.300, “producer-shippers” and “shippers buying from producers” must:

“Commit to acquire firm transportation capacity in the first binding open season”

AS 43.90.300

What is a binding commitment?

AGIA REGULATIONS OVERVIEW

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“Must commit to acquire firm transportation capacity in the first binding open season” means that one must:*

1. Submit a bid for firm transportation capacity during the initial open season;
2. Execute a Precedent Agreement within 180 days of close of initial open season;
3. Execute Transportation Services Agreement within 5 years of open season, or two years following FERC Certification, whichever is later;
and
4. File with the DOR-DNR Commissioners:
 - Copies of documents listed above; and
 - Copy of rolled-in rate agreements governing pipeline expansions

Qualification for AGIA Inducements

AGIA REGULATIONS OVERVIEW

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Step 1: Producer-Shipper applies to DOR-DNR Commissioners for qualification under AS 43.90.300.

AS 43.90.300
Qualification for
Inducements



If Qualified Under
AS43.90.300

Steps 2 & 3: Producer-Shipper must comply with separate regulations to receive tax and royalty inducements

AS 43.90.310
Royalty
Inducement

AS 43.90.320
Tax Inducement

B

Gas Production Tax Exemption

(AGIA Tax Inducement)

AGIA REGULATIONS OVERVIEW

4/15/2010

Gas Production Tax Exemption

AGIA REGULATIONS OVERVIEW

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- AGIA entitles shippers to 10 years of 'tax certainty' from the commencement of operation, on gas which is committed during the initial open season on an AGIA gas pipeline.
- Certainty is provided in the form of a tax "exemption" (i.e. a credit)

$$\text{Credit} = \left[\begin{array}{c} \text{Gas production tax} \\ \text{obligation under law} \\ \text{at time of production} \end{array} \right] - \left[\begin{array}{c} \text{Gas production tax} \\ \text{obligation under law} \\ \text{at open season} \end{array} \right]$$

Identifying “gas production tax”

AGIA REGULATIONS OVERVIEW

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- The current Production Tax is calculated on combined oil and gas production, with combined oil and gas lease expenditures. So, we need to determine a “gas production tax obligation” for purposes of the .320 tax inducement.
- Regulations have been adopted to define an “Attributed Gas Production Tax Obligation” which is the proportion of the combined production tax that is deemed to be the “gas portion”.

How is the .320 Gas Production Tax Obligation calculated?

AGIA REGULATIONS OVERVIEW

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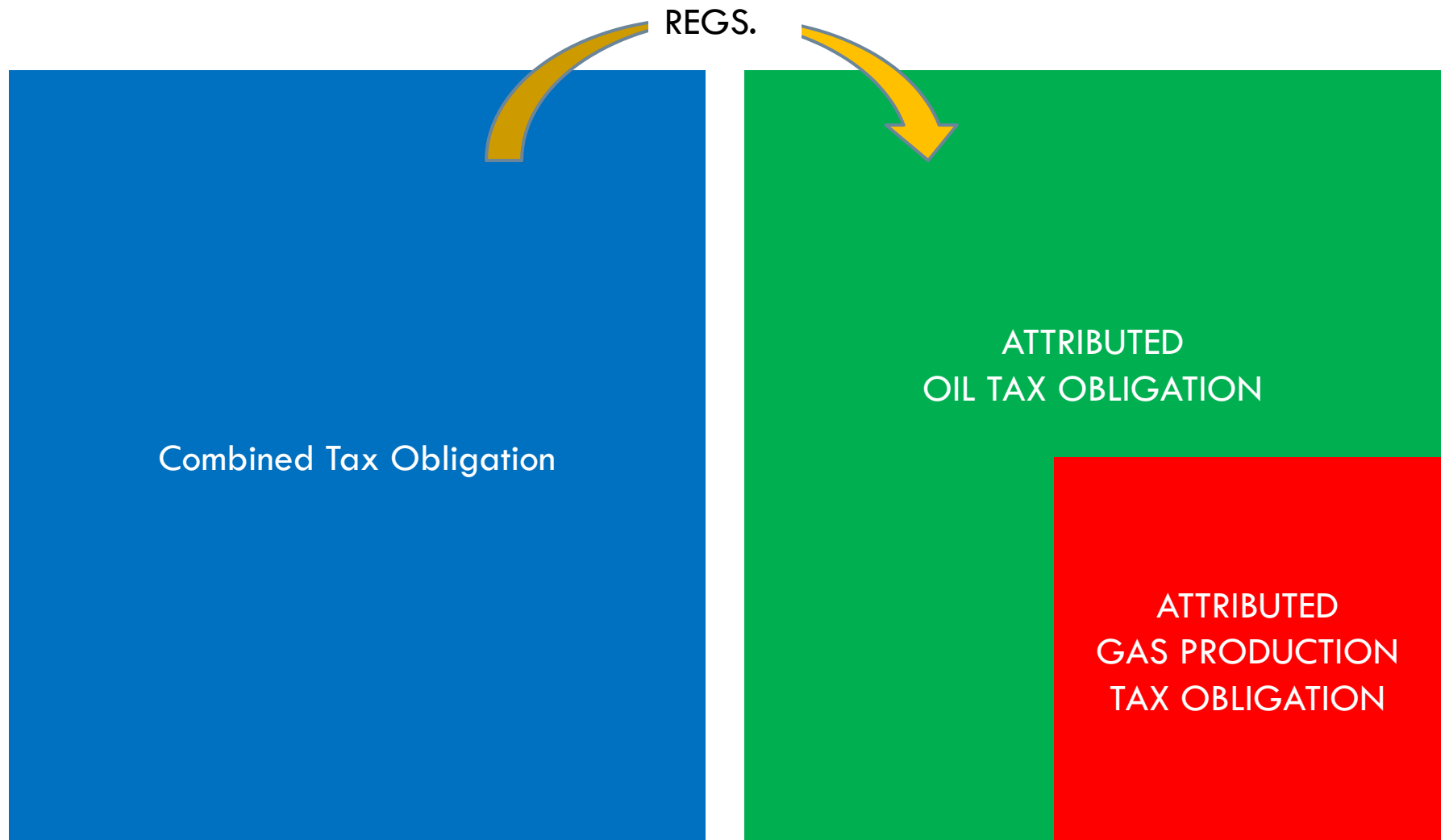
$$\text{Combined Tax Obligation} * \frac{\text{Gross Value of \underline{AGIA Gas} at the Point of Production}}{\text{Gross Value of all \underline{Oil and Gas} at the Point of Production}}$$

	Oil	Gas	Total
Gross Value at the Point of Production (PoP)	\$4,500	\$1,500	\$6,000
Proportionate Value at the PoP	75%	25%	100%
Combined Tax Obligation	NA	NA	\$1,000
Attributed Gas Production Tax Obligation (25% x \$1000)	NA	\$250	NA

Illustration

AGIA REGULATIONS OVERVIEW

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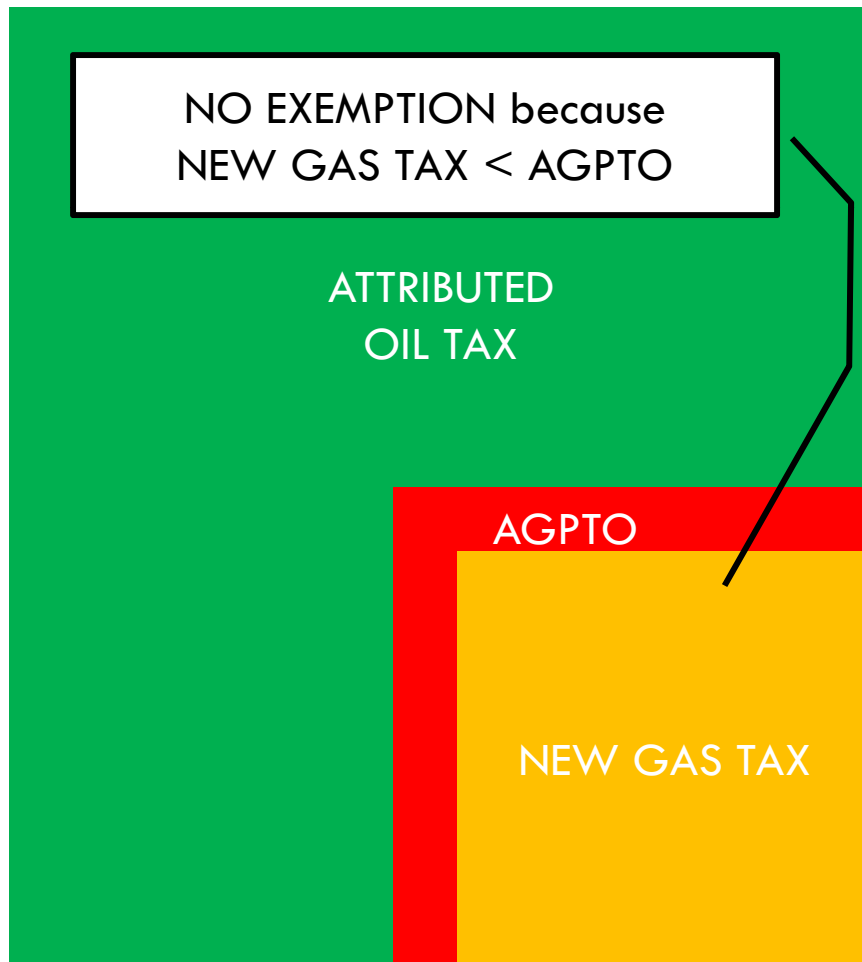


Exemptions (Credits) are granted when the New Gas Tax is higher than the Attributed Gas Production Tax Obligation (AGPTO).

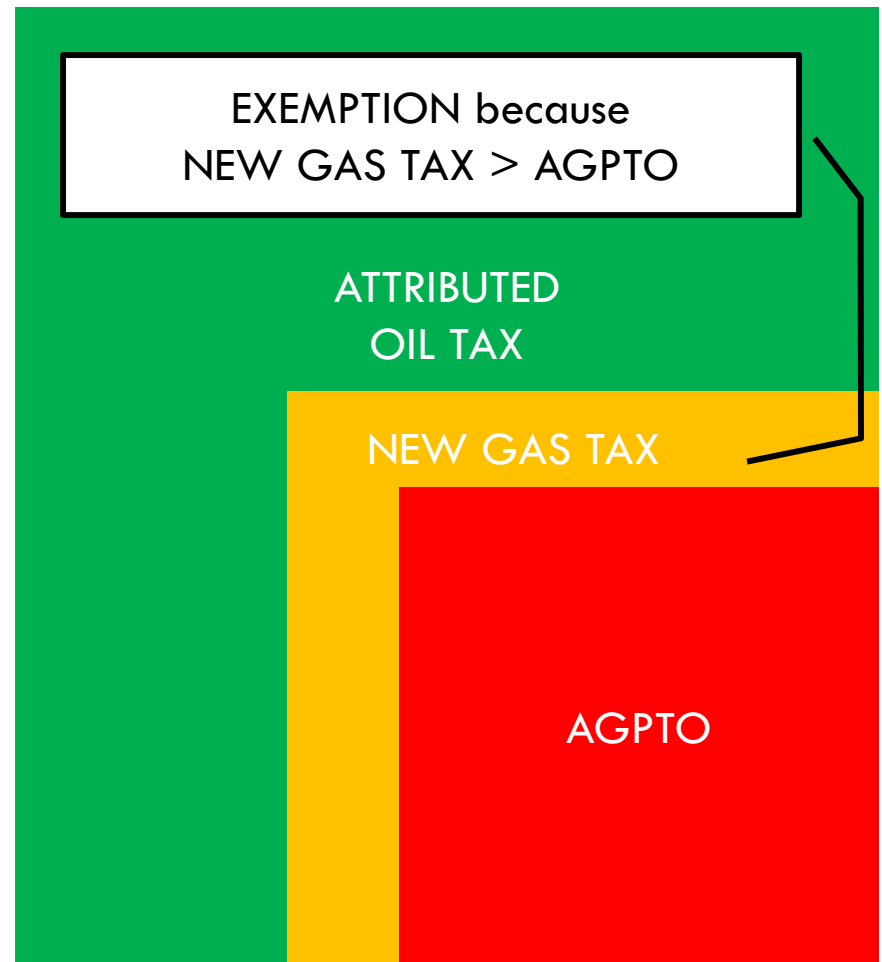
AGIA REGULATIONS OVERVIEW

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EXAMPLE 1 – NO EXEMPTION



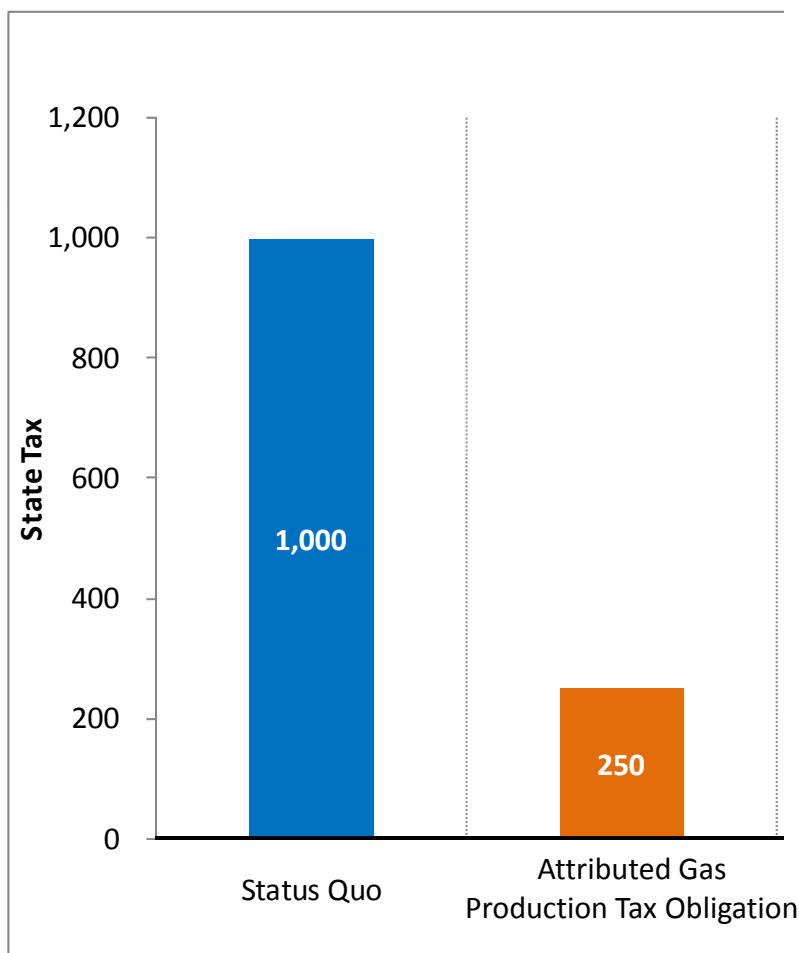
EXAMPLE 2 – EXEMPTION



Example 1 – No exemption

AGIA REGULATIONS OVERVIEW

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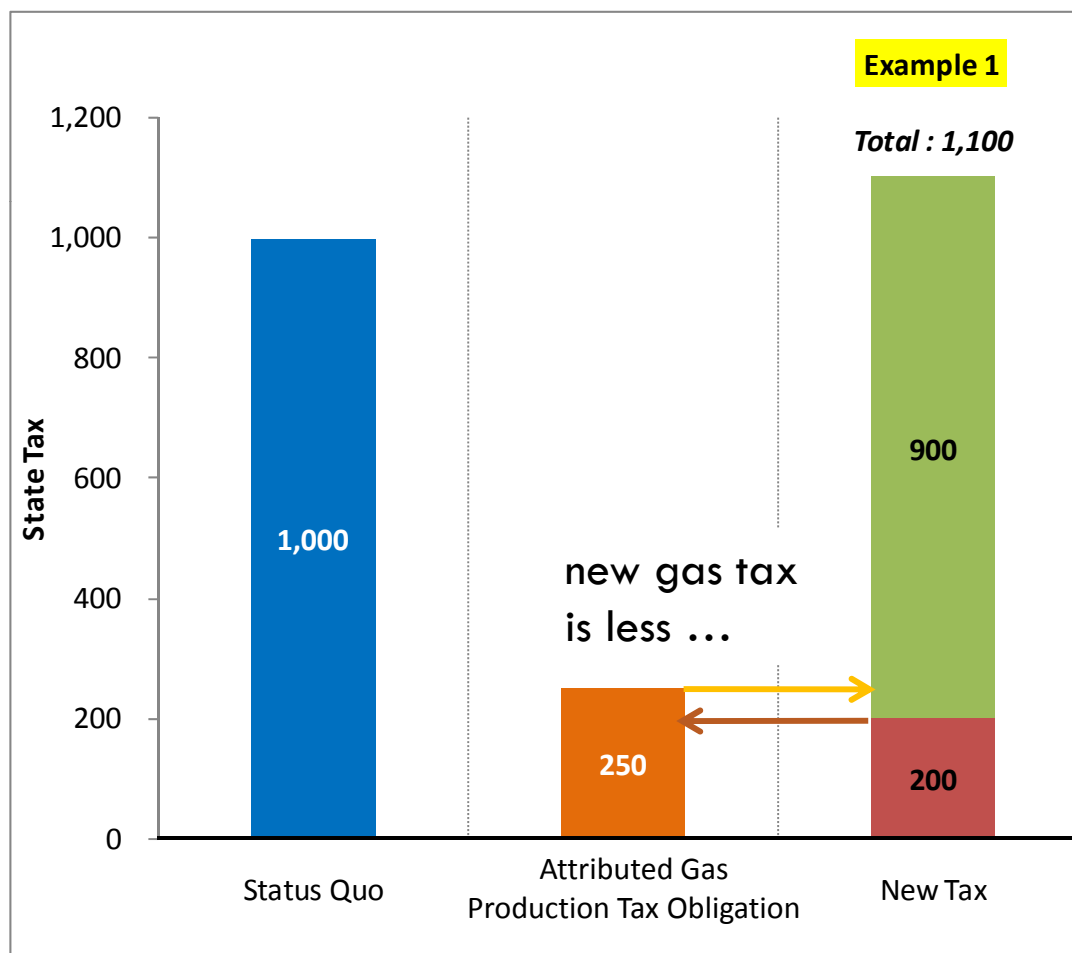
- The Producer's deemed tax liability is calculated under the Combined Oil and Gas tax regime in effect on the April 30, 2010.
- The Producer's Attributed Gas Production Tax Obligation is the Status Quo tax multiplied by the ratio of Value of AGIA Gas at the PoP over the total oil and gas value at the PoP.

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Example 1 – No exemption

AGIA REGULATIONS OVERVIEW

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□ The Attributed Gas Production Tax Obligation is then compared to the gas tax under the tax regime in effect at that time.

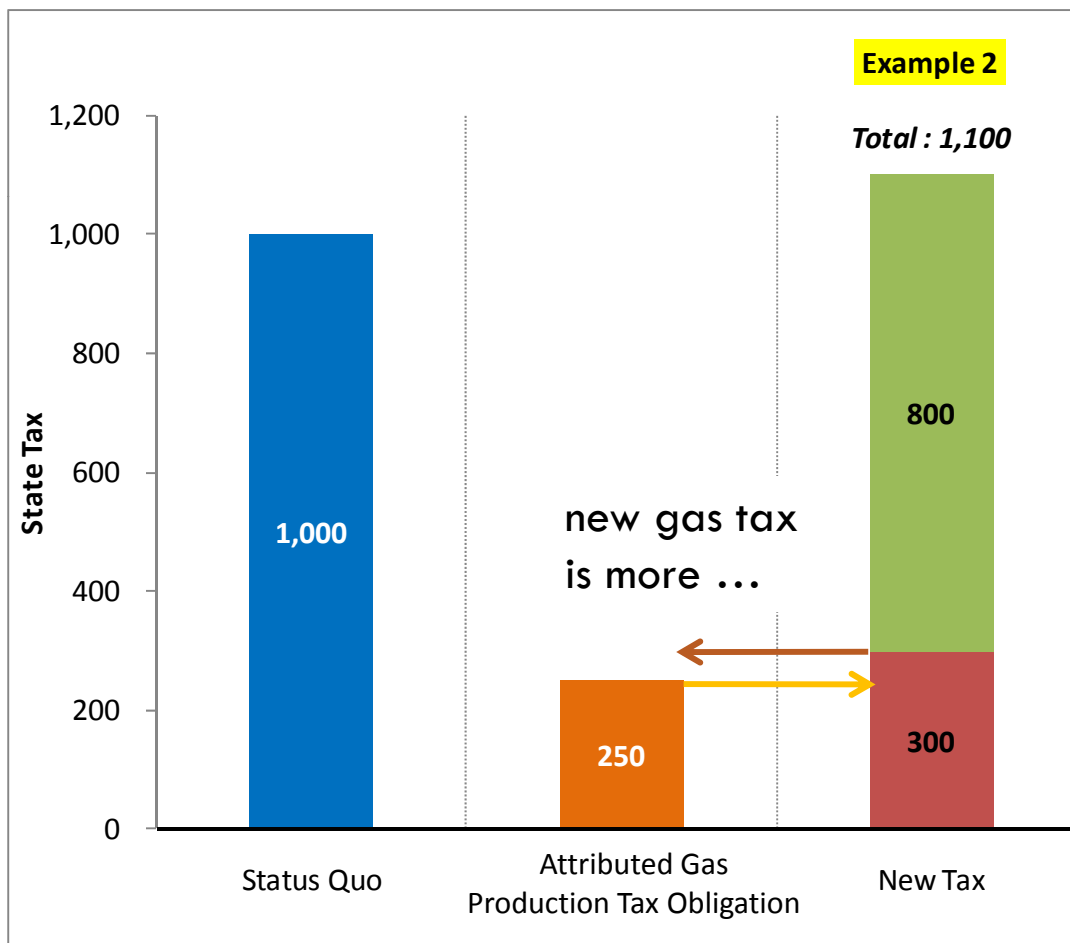
□ If the new gas tax is less than the AGPTO, no exemption is created...

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Example 2 – Exemption Created

AGIA REGULATIONS OVERVIEW

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- The Attributed Gas Production Tax Obligation is compared to the gas tax under the tax regime in effect at that time.

- If the new gas tax is more than the AGPTO, an exemption is created...

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